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UNCLAS SECTION 01 OF 02 HARARE 000690

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EAID BTIO EINV PGOV ZI
SUBJECT: Only Modest Exporter Relief in RBZ Statement

¶1. Summary: Reserve Bank (RBZ) Governor Gideon Gono's second policy statement disappointed much of the business community. While he took credit for more restrictive money supply, lower inflation and more realistic interest rates, Gono did not relieve exporters of a large de facto revenue tax. He also suggested the GOZ would continue selective "witch hunts" on persons who traded on the parallel currency market. End Summary.

Not Much For Exporters

¶2. The flamboyant Gono spoke on April 22 for the second time since taking control of the RBZ last December 1. Expectations were high that he would eliminate or begin to phase out the requirement that exporters remit 25 percent of earnings at Z$824:US$, about one-sixth the going rate. Coupled with an overvalued auction rate, this mandatory conversion has rendered many exporters uncompetitive. The Embassy has heard dozens of disgruntled sagas from once-competitive exporters. Even members of Gono's handpicked advisory board told us they anticipated the RBZ governor would announce an end or phase out of the Z$824:US$ rate.

¶3. As for the twice-weekly forex auctions, Gono failed to assure exporters the RBZ would accept the principle that the high bid wins, in accordance with its own guidelines. The RBZ has manipulated the auction rate not only by setting a minimum-acceptable bid, but by rejecting higher bids under the pretext that they are not for priority imports. We know of at least one case when the RBZ asked a bidder to lower his submission, assuring he would secure forex for fewer zimdollars. Finally, Gono did not grant exporters the right to reject bids, as many had sought.

¶4. Gono did offer two modest new advantages for exporters. First, they will not have to accept a rate lower than Z$5,200:US$. While he indicated this rate would be "reviewed periodically," he did not say whether it would keep up with the auction rate or inflation. Second, exporters that advance export proceeds to the RBZ may retain 80 percent in forex and exchange the other 20 percent at the auction rate, relieving them of the mandatory Z$824:US$ requirement. It is not clear how many exporters can take advantage of this arrangement. In any event, it favors large companies and multinationals - which may be able to front the forex several months before payment - over emerging or small exporters.

Positive Aspects

¶5. In fairness, Gono has reached several important milestones during his five-month tenure. Through his televised addresses and follow-up question & answer sessions, he has enhanced transparency at the RBZ. His policing of banks and asset management companies, a responsibility ignored by his predecessors at RBZ and the Finance Ministry, is restoring investor credibility. He is applying noticeable pressure on ministries and parastatals to live within means and budgets. In keeping with lower inflation, he seems to have reduced money supply growth from around 500 to 250 percent since he took office (statistics are not yet out). Other than a 30 percent loan facility to the "productive sector," Gono has generally defended positive interest rates as an important tool for reducing inflation.

¶6. On inflation, Gono congratulates himself for "burst[ing] the bubble of runaway inflation" and claims to have scaled back inflation from 33.6 percent in November 2003 to 5.9 percent in March 2004. This may be slightly gratuitous. March 2003 inflation - the conventional comparator - was only 8.8 percent. Zimbabwean inflation typically peaks at year-end.

Other Notes

¶7. In addition, Gono:

- offered Zimbabweans abroad the advantageous Z$5200:US$ rate for transfers to relatives. But again, he gave no objective criteria for readjusting this rate.

- decided to leave negative interest productive sector loans in tact, though the rate will rise from 30 to 50 percent on July 1. While he wants to make the facility revolving, high inflation will rapidly eat away at available funds. During its March visit, the IMF urged Gono to end this speculator's haven.

- declined to support amnesty for parallel market traders. Aggressive GOZ prosecution for an offense practiced by all but the poorest Zimbabweans has become a quasi-witch hunt under the guise of anti-corruption. (Gono's own bank was an ambitious parallel market trader.) The RBZ's pursuit of these traders has dampened parallel market activity, sort of a shotgun approach to currency stabilization. At a minimum, many Zimbabweans hoped Gono would support amnesty for trading prior to his taking office.

- repeated GOZ distortions that foreign tourist arrivals increased from 739,284 in 2002 to 1,089,256 in 2003. As Zimbabwe Tourist Authority president Shingi Munyeza has told us, foreign tourist arrivals have decreased each year since 2000 and are off about 80 percent in total. The Government is probably including multiple trips by cross-border traders. (Tourism revenue has dropped from US$140 to 44 million and hotel occupancy from 65-70 to 40 percent since 1999.) Gono realizes foreign tourists are not returning to Zimbabwe but likely wants to pressure the sector to remit forex earnings.

- found it "disheartening" that banks had not acceded to his wish that they begin to work Wednesday afternoons (known in banking circles as golfing afternoons). He seems to believe it is the RBZ governor's right to dictate opening hours to private banks.

Comment

¶8. For whatever reason, Gono does not appreciate the woes of exporters and the harm an overvalued currency does to export-driven growth. This is unfortunate, since Zimbabwe's four top sectors - agriculture, mining, manufacturing and tourism - all have heavy export components. In his speech, Gono devoted several minutes to Japan's post-World War II economic boom powered by exports. But he failed to note the role that a fairly valued (or undervalued) currency played in Japan's ascent. Like governments in several other developing countries, Zimbabwe's relies excessively on the exchange rate as a determinant of economic health. It will be a tough habit to break.

Sullivan